

EXHIBIT B

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2022**

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **000-18730**

DARKPULSE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0472109

(I.R.S. Employer Identification No.)

1345 Ave of the Americas, 2nd Floor, New York, NY

(Address of principal executive offices)

10105

(Zip Code)

(800) 436-1436

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class

Not applicable

Trading Symbol(s)

Not applicable

Name of each exchange on which registered

Not applicable

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes ☐ No ☒

Indicate by check mark whether the registrant has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐ Accelerated filer

☐

Non-accelerated filer

☐ Smaller reporting company

☒

Emerging growth company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock on May 10, 2022, was 5,451,212,038.

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DARKPULSE, INC.
Consolidated Statement of Stockholders' Deficit
For the Three Months Ended March 31, 2022 and 2021

	Preferred Stock		Common Stock		Treasury Stock	Paid in Capital in Excess of Par Value	Non-Controlling Interest in Subsidiary	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount						
Balance, December 31, 2021	88,235	\$ 883	5,197,821,885	\$ 519,782	\$ (1,000)	\$ 20,248,703	\$ 2,358,227	\$ (284,463)	\$ (11,276,490)	\$ 11,565,642
Common stock issued for cash	—	—	200,121,061	20,012		7,679,988		—	—	7,700,000
Foreign currency adjustment	—	—	—	—	—	—	—	(219,569)	—	(219,569)
Net loss	—	—	—	—	—	—	—	—	(5,384,270)	(5,384,270)
Balance, March 31, 2022	88,235	\$ 883	5,397,942,946	\$ 539,794	\$ (1,000)	\$ 27,928,691	\$ 2,358,227	\$ (504,032)	\$ (16,660,760)	\$ 13,661,803
Balance, December 31, 2020	88,235	\$ 883	4,088,762,156	\$ 408,876	\$ (1,000)	\$ 1,805,813	\$ (12,439)	\$ 315,832	\$ (6,450,170)	\$ (3,932,205)
Conversion of convertible notes	—	—	600,999,995	60,100	—	189,839	—	—	—	249,939
Foreign currency adjustment	—	—	—	—	—	—	—	(17,909)	—	(17,909)
Net loss	—	—	—	—	—	—	—	—	(51,874)	(51,874)
Balance, March 31, 2021	88,235	\$ 883	4,689,762,151	\$ 468,976	\$ (1,000)	\$ 1,995,652	\$ (12,439)	\$ 297,923	\$ (6,502,044)	\$ (3,752,049)

See accompanying notes to consolidated financial statements.

Preferred Stock

In accordance with the Company's Certificate of Incorporation, the Company has authorized a total of 2,000,000 shares of preferred stock, par value \$0.01 per share, for all classes. As of March 31, 2022, and December 31, 2021, there were 88,235 total preferred shares issued and outstanding for all classes.

During the three months ended March 31, 2022, the Company issued no shares of preferred stock.

Common Stock

In accordance with the Company's bylaws, the Company has authorized a total of 20,000,000,000 shares of common stock, par value \$0.0001 per share. As of March 31, 2022 and December 31, 2021, there were 5,397,942,946 and 5,197,821,885 common shares issued and outstanding.

During the three months ended March 31, 2022, the Company issued the following shares of common stock:

On January 12, 2022, the Company issued 23,372,430 shares of common stock for \$1,150,000.

On January 21, 2022, the Company issued 33,454,988 shares of common stock for \$1,150,000.

On February 7, 2022, the Company issued 16,040,411 shares of common stock for \$500,000.

On March 3, 2022, the Company issued 16,579,569 shares of common stock for \$500,000.

On March 7, 2022, the Company issued 75,798,921 shares of common stock for \$2,500,000.

On March 14, 2022, the Company issued 5,617,347 shares of common stock for \$400,000.

On March 23, 2022, the Company issued 29,257,395 shares of common stock for \$1,500,000.

Stock Options

During the three months ended March 31, 2022, the Company did not issue any stock options and had no stock options outstanding at March 31, 2022.

Public Offerings

On November 9, 2021, we entered an Equity Financing Agreement (the "**Equity Financing Agreement**") and Registration Rights Agreement (the "**GHS Registration Rights Agreement**") with GHS, pursuant to which GHS agreed to purchase up to \$30,000,000 in shares of our Common Stock, from time to time over the course of 24 months (the "**Contract Period**") after effectiveness of a registration statement on Form S-1 (the "**Registration Statement**") of the underlying shares of Common Stock.

The GHS Registration Rights Agreement provides that we shall (i) use our best efforts to file with the SEC a Registration Statement within 45 days of the date of the GHS Registration Rights Agreement; and (ii) have the Registration Statement declared effective by the SEC within 30 days after the date the GHS Registration Statement is filed with the SEC, but in no event more than 90 days after the GHS Registration Statement is filed.

Pursuant to the Equity Financing Agreement, on January 12, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 23,372,430 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.054124 per share (the "**Second EFA Closing**"). We received approximately \$1,033,975 in net proceeds from the Second EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Second EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on January 21, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 33,454,988 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.037812 per share (the “**Third EFA Closing**”). We received approximately \$1,033,975 in net proceeds from the Third EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Third EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on February 7, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 16,040,411 shares of Common Stock for total proceeds to us, net of discounts, of \$500,000, at an effective price of \$0.0342884 per share (the “**Fourth EFA Closing**”). We received approximately \$448,975 in net proceeds from the Fourth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fourth EFA Closing for working capital and for general corporate purposes.

On February 21, 2022, we sold 75,798,921 shares of our Common Stock at \$0.032982 per share for total consideration of \$2,500,000.

On March 3, 2022, we sold 16,579,569 shares of our Common Stock at \$0.0301576 per share for total consideration of \$500,000.

On March 14, 2022, we sold 5,617,347 shares of our Common Stock at \$0.071208 per share for total consideration of \$400,000.

Pursuant to the Equity Financing Agreement, on March 23, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,257,395 shares of Common Stock for total proceeds to us, net of discounts, of \$1,500,000, at an effective price of \$0.056396 per share (the “**Fifth EFA Closing**”). We received approximately \$1,348,975 in net proceeds from the Fifth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fifth EFA Closing for working capital and for general corporate purposes.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Company follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions. Pursuant to Section 850-10-20 the related parties include a) affiliates of the Company; b) Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) principal owners of the Company; e) management of the Company; f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g) Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include: a) the nature of the relationship(s) involved; b) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c) the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

During the three months ended March 31, 2022 and 2021, the Company’s Chief Executive Officer advanced personal funds in the amount of \$0 and \$329 for Company expenses. As of March 31, 2022, the Company’s Chief Executive Officer is owed a total of \$0 for advanced personal funds.

On March 3, 2022, we sold 16,579,569 shares of our Common Stock at \$0.0301576 per share for total consideration of \$500,000.

On March 14, 2022, we sold 5,617,347 shares of our Common Stock at \$0.071208 per share for total consideration of \$400,000.

Pursuant to the Equity Financing Agreement, on March 23, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,257,395 shares of Common Stock for total proceeds to us, net of discounts, of \$1,500,000, at an effective price of \$0.056396 per share (the “**Fifth EFA Closing**”). We received approximately \$1,348,975 in net proceeds from the Fifth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fifth EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on April 11, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 23,746,816 shares of Common Stock for total proceeds to us, net of discounts, of \$1,000,000, at an effective price of \$0.04211091 per share (the “**Sixth EFA Closing**”). We received approximately \$898,975 in net proceeds from the Sixth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Sixth EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on May 3, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,522,276 shares of Common Stock for total proceeds to us, net of discounts, of \$1,000,000, at an effective price of \$0.03387273 per share (the “**Seventh EFA Closing**”). We received approximately \$898,975 in net proceeds from the Seventh EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Seventh EFA Closing for working capital and for general corporate purposes.

Going Concern Uncertainty

As shown in the accompanying financial statements, during the three months ended March 31, 2022, the Company reported a net loss of \$5,384,270. As of March 31, 2022, the Company’s current liabilities exceeded its current assets by \$7,610,707. As of March 31, 2022, the Company had \$4,785,797 of cash.

We will require additional funding to finance the growth of our operations and achieve our strategic objectives. These factors, as relative to capital raising activities, create doubt as to our ability to continue as a going concern. We are seeking to raise additional capital and are targeting strategic partners in an effort to accelerate the sales and marketing of our products and begin generating revenues. Our ability to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements, expansion of our operations and generating sales. The accompanying financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations; however, management cannot make any assurances that such financing will be secured.

Results of Operations

Revenues

For the three months ended March 31, 2022, total revenues were \$2,018,333 compared to \$0 for the same period in 2021, an increase of \$2,018,333. This increase primarily consisted of revenues of \$1,856,961 from Optilan, \$34,094 from Wildlife Specialists and \$118,926 from TJM Electronics as well as \$8,352 from the remaining subsidiaries.

Cost of Goods Sold and Gross Loss

For the three months ended March 31, 2022, cost of goods sold were \$2,348,567 compared to \$0 for the same period in 2021, an increase of \$2,348,567.

Gross loss for the three months ended March 31, 2022 was \$330,234 with a gross loss margin of (16.36)% compared to \$0 for the same period in 2021 with no gross profit margin.

Operating Expenses

Selling, general and administrative expenses for three months ended March 31, 2022 increased by \$948,520, or 3,195%, to \$978,208 from \$29,688 for the three months ended March 31, 2021. The increase primarily consisted of an increase to the operations from our various acquisitions.

Payroll related expenses for three months ended March 31, 2022, increased to \$1,972,067 from \$0 for the three months ended March 31, 2021. The increase primarily consisted of an increase to the numbers of employees inherited from our various acquisitions.

Professional fees for the three months ended March 31, 2022, increased by \$1,463,749 to \$1,538,103 from \$74,354 for the three months ended March 31, 2021. This increase primarily consisted of increased legal expenditures associated with the increase in litigation.

Depreciation and amortization for three months ended March 31, 2022, increased by \$215,857 to \$228,614 from \$12,757 for the three months ended March 31, 2021. This increase is primarily due to the increase in depreciable assets we acquired from new acquisitions.

Other Income (Expense)

For the three months ended March 31, 2022, we had other expense of \$337,043 compared to other income of \$107,675 for the same period in 2021, an increase in expense of \$444,718. This increase in other income primarily consisted of changes of \$35,750 of gain related to the extinguishment of debt, \$156,051 increase in the fair value of the Company's derivative instruments, \$19,853 of gain on foreign currency exchange rate variance, an increase in interest expense of \$486,092 due to increased borrowings associated with acquisitions.

Net Loss

As a result of the above, we reported a net loss of \$5,384,270 and \$51,874 for the three months ended March 31, 2022 and 2021, respectively.

Liquidity and Capital Resources

We require working capital to fund the continued development and commercialization of our proprietary fiber optic sensing devices, and for operating expenses. During the three months ended March 31, 2022, we had \$7,700,000 in new cash proceeds compared to the three months ended March 31, 2021, when we had \$212,750 in new cash proceeds.

As of March 31, 2022, we had cash of \$4,785,797, compared to \$50,714 as of March 31, 2021. We currently do not have sufficient cash to fund our operations for the next 12 months and we will require working capital to complete development, testing and marketing of our products and to pay for ongoing operating expenses. We anticipate adding consultants for technology development and the corresponding operations of the Company, but this will not occur prior to obtaining additional capital. Management is currently in the process of looking for additional investors. Currently, loans from banks or other lending sources for lines of credit or similar short-term borrowings are not available to us. We have been able to raise working capital to fund operations through the issuances of convertible notes or obtained through the issuance of our restricted common stock. As of March 31, 2022, our current liabilities exceeded our current assets by \$7,610,707.

Cash Flows From Operating Activities

During the three months ended March 31, 2022, net cash used by operating activities was \$6,288,504, resulting from our net loss of \$5,384,270 and an increase in expenses related to our convertible notes payables, including increase in inventory of \$1,017,178 and operating lease liabilities of \$440,171. These increases were offset by a decrease in derivative liability of \$125,107, decrease in accounts payable and accrued expenses of \$355,398 and an increase from the gain on the extinguishment of debt of \$35,750, increase in accounts receivable of \$2,523,210, decrease in unbilled revenue of \$255,622 and increase in contract liability of \$1,451,343.

By comparison, during the three months ended March 31, 2021, net cash used by operating activities was \$161,173, resulting from our net loss of \$51,874 partially offset by non-cash expenses totaling \$126,580 and increases in accounts payable and accrued liabilities of \$17,281.

Cash Flows From Investing Activities

During the three months ended March 31, 2022, we had net cash used in investing activities of \$64,980. During the three months ended March 31, 2021, net cash used by investing activities was \$1,200, of capitalized patents costs of \$1,200.

Cash Flows From Financing Activities

During the three months ended March 31, 2022, net cash provided by financing activities was \$7,700,000 which was comprised of proceeds from the sale of common stock from offering of \$7,700,000. During the three months ended March 31, 2021, net cash used by financing activities was \$212,750, which was comprised of proceeds from issuance of convertible notes payable of \$212,750.

Factors That May Affect Future Results

Management's Discussion and Analysis contains information based on management's beliefs and forward-looking statements that involve a number of risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from the forward-looking statements as a result of various factors, including but not limited to, our ability to obtain the equity funding or borrowings necessary to market and launch our products, our ability to successfully serially produce and market our products; our success establishing and maintaining collaborative licensing and supplier arrangements; the acceptance of our products by customers; our continued ability to pay operating costs; our ability to meet demand for our products; the amount and nature of competition from our competitors; the effects of technological changes on products and product demand; and our ability to successfully adapt to market forces and technological demands of our customers.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity capital expenditures or capital resources.

Recent Accounting Pronouncements

We have provided a discussion of recent accounting pronouncements in Note 1 to the Condensed Financial Statements.